

The complaint

Ms G complains that Volkswagen Financial Services (UK) Limited (VFS) didn't sufficiently check before they agreed to lend to her.

In bringing her complaint Ms G is represented by a third party. For ease of reading I will only refer to Ms G in my decision.

What happened

In March 2018 Ms G acquired a car when she entered into a hire purchase agreement with VFS. The cash price of the car was £22,115, a deposit of £2,001 was made and after interest and charges were applied the total amount Ms G had to repay was £25,783.83. This was repayable after the initial advance payment by a further 48 months at £286.96 a month with a final balloon payment of £9998.75. Ms G said she'd struggled to meet the monthly commitments which had affected her financially. She complained to VFS.

VFS said they'd used information provided by Ms G and a credit score to determine the affordability of the lending. They'd found she was in secure employment; all her credit was well paid and managed. And there weren't any signs of financial stress. They said Ms G had told them she was living at home with her parents and didn't pay any rent. Based on this and Ms G's credit score rated at the highest level they deemed the lending was affordable for her.

Ms G wasn't happy with VFS' response and referred her complaint to us.

Our investigator said VFS should have done more to check Ms G's financial situation but if they had they would have seen that Ms G could sustain the repayments. And so VFS' decision to lend to her was fair.

Ms G disagreed as she said it was clear she was struggling with her finances, and her discretionary spending hadn't been considered. She asked for an ombudsman to decide.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so I'm not upholding this complaint. I appreciate this will disappoint Ms G, so I'll explain why.

The Financial Conduct Authority (FCA) sets out in a part of its handbook known as CONC what lenders must do when deciding whether or not to lend to a consumer. In summary, a firm must consider the consumer's ability to make repayments under the agreement without having to borrow further to meet repayments or default on other obligations, and without the repayments having a significant adverse impact on the consumer's financial situation.

There's no set list for what reasonable and proportionate checks are. But I'd expect lenders to consider the specific circumstances of the loan application. Whether or not the checks are

proportionate depends on various factors, including the size and length of the loan, the cost of credit, and what VFS found.

CONC says a firm must carry out checks which are proportionate to the individual circumstances of each case. CONC 5.2A.15 (2) says:

“The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer’s current income.”

So, I’ve considered the checks VFS said they did. VFS said they used information provided by Ms G on her application and the use of credit reference agencies (CRA) to determine her income. From her application Ms G declared she was in full time employment, and the CRA check showed her to have a monthly income of around £1,721. CONC 5.2A.16(3) says:

“For the purpose of considering the customer’s income under CONC 5.2A.15R, it is not generally sufficient to rely solely on a statement of current income made by the customer without independent evidence (for example, in the form of information supplied by a credit reference agency or documentation of a third party supplied by the third party or by the customer).”

So as VFS sought independent evidence about Ms G’s income I’m satisfied this check was reasonable and proportionate. CONC 5.2A.17(2) says:

“The firm must take reasonable steps to determine the amount, or make a reasonable estimate, of the customer’s current non-discretionary expenditure.”

VFS said they checked Ms G’s credit history which showed she’d five credit entries but only one of these showed as having a balance. Ms G’s application data declared she was living with parents and that she wasn’t paying any rent. But I can see while Ms G’s non-discretionary spending appeared to be low, her credit history shows she’d a loan for over £20,000 that she’d taken out in November 2017, a few months prior to this agreement for £340 a month, and she’d a credit card with a credit limit of £1,000. As the total amount repayable for Ms G’s loan with VFS was over £25,000 and she’d be indebted for around four years, I think VFS should have done more to assess Ms G’s non-discretionary costs. - so I think the checks needed to be more thorough.

This doesn’t automatically mean VFS shouldn’t have lent to Ms G as I need to consider whether further checks would have shown that the repayments weren’t affordable for her.

I’ve looked at statements for Ms G’s bank account for the three months leading up to her application to VFS I’m not saying VFS needed to look at Ms G’s bank statements, but they provide a good indication of her expenditure at the time the lending decision was made.

I can see from Ms G’s bank statements that her average salary was around £1,800, more than the £1,721 used by VFS in assessing her credit worthiness. VFS credit check showed Ms G had five accounts but with only one showing a balance. And this is reflected in her bank statements as she’d a loan of around £340 a month, a credit card, current account and a communications account. There was another loan showing on her credit file for around £379 a month that had a zero balance, and I can see from Ms G’s bank statements that no payments were made towards this loan after she took out the new lending in November 2017. From Ms G’s bank statements her regular financial commitments were around £495 a month which included her loan, insurance, phone, and transport costs.

I can see from Ms G’s credit history that she also had a credit card with a credit limit of £1,000. She does make several large payments towards her credit card each month, £1,427,

£1,772 and £995 respectively, on average £1,398. But I can also see from Ms G's bank statements that during this period she'd paid for a holiday and had also received several payments referenced "*holiday*" for around £1,200, several payments referenced "*Audicar*" that totalled around £1,700. As well as receiving payments referenced "*payback*".

As her credit record for her credit card showed a zero balance I think this shows while Ms G used her credit card regularly she paid any transactions made on her credit card in full. As Ms G had a credit card with a £1,000 credit limit if she couldn't pay in full each month and she'd drawn down the full amount she would have needed to repay over a reasonable period around £50 a month so I've included this in her financial commitments.

Ms G declared she was living at home and not paying rent so its to be expected that her bank statements would be void of household costs. But there are sporadic payments at food outlets which average around £50 a month. I think taking Ms G's income and outgoings into account and after factoring in the new lending of around £287 she'd a disposable income of around £918 each month.

Ms G has said that her discretionary spending wasn't taken onto account but as outlined above CONC requires a lender to take reasonable steps to determine a customer's non-discretionary spending. And in accounting for Ms G's non-discretionary spending including the new lending with VFS I'm satisfied she would have had sufficient disposable income each month to allow for discretionary and unexpected costs.

While I think VFS' checks before entering into this hire purchase agreement with Ms G mightn't have gone far enough, I'm satisfied that carrying out further checks won't have stopped VFS from providing these funds or entering into this agreement.

So, I'm satisfied that VFS didn't act unfairly towards Ms G when they agreed to provide the funds. I appreciate that this will be disappointing for Ms G but I hope she'll understand the reasons for my decision and at least consider that her concerns have been listened to.

My final decision

I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Ms G to accept or reject my decision before 18 December 2024.

Anne Scarr
Ombudsman